Party-business networks and privatization in post-authoritarian context: The case of the Serbian privatization after Milošević (2000-2015)

The existing studies on privatization differ in their conclusions on privatization effects based on the level of analysis. Studies with a macro-level perspective show that on average privatization had positive effects on economic growth or at least that it had positive effects when it was accompanied with institutional reforms (Plane 1997, Sachs et al 2000, Estrin et al 2007). However, studies observing the level of firm performance offer inconclusive results (Djankov and Murrell 2000, Estrin et al 2007, Anderson et al 1999).

Present paper analyzes the Serbian privatization experience after its regime change in 2000 in order to explain the variation in the success of privatization record of its firms. My claim is that in order to understand this variation, we need to focus on the networks of actors between firms, political parties and regulatory bodies emerging after the regime change in 2000. These groups could influence the process of particular privatization deals through networks emerging between them in the conditions of incomplete institutions where none of the actors is strong enough to autonomously influence the process. In a nutshell, I argue that where centralized[1] networks between the pairs of actors, regulatory bodies-firms and political parties-firms emerge after the regime change, the privatization will be unsuccessful. When firms designated for privatization become embedded in the networks of these actors, namely with one political party through the politician sitting on the board of directors, and regulatory body members being connected with the tycoons the expectation is that the process of tender or auction sale would not be conducted based on the formal rules. For example, the tender will be designed to favor certain types of buyers, the consultant firms will artificially lower the price of the firm, etc. When one party has control over the firm before privatization, it can easily strike a dubious deal with the tycoon because coordination is much easier. In the opposite case, when firms are embedded in dispersed networks, with multiple political parties' members sitting on firms' board of directors, and with having no link between the firm and regulatory body members, the expectation is a successful privatization. In these cases, tender and auction sales are organized based on the principles of the

[1] **Centralized** network refers to the situation when firm is connected with one political party through the board of directors and there is a link between tycoon and a regulatory body member. **Dispersed** network exists in two options: 1) when one firm is connected with multiple political parties through the board of directors and there is no link between the regulatory body member and tycoon, or 2) when there is no link with the firm and political parties through the board of directors and no links between regulatory bodies' members and tycoons.

direct sale model Serbia adopted. This is because making an informal deal with several different parties is much harder and much more risky. Paradoxically, having multiple members of political parties on its board, a firm will have better chances for successful privatization. Dispersed network structure is expected to disable the coordination between a tycoon and political parties, since a great deal of risk is involved due to the multiple actors in the network. I illustrate my argument by using a network analysis on the example of two Serbian firms privatized after 2000, one successful and one unsuccessful case in the chemical industry. I provide a detailed account of these firms' privatization experience, the structure of networks before privatization and its evolution after the privatization. I trace the history of their privatization by examining primary sources, media accounts and state institutions' documents.